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EUR FOR DAS BRYZA

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SUBJECT: BULGARIANS UNDER PRESSURE ON SOUTH STREAM PIPELINE

REF: SOFIA 1073

Classified By: DCM Alex Karagiannis for reasons 1.4 (b) and (d).

¶1. (C) Summary: Bulgaria is under intense pressure from Russia to sign a joint message on the South Stream pipeline, according to our Ministry of Economy and Energy (MOEE) contacts. The Bulgarians disagree with proposed Russian text that would allow the South Stream project to use existing Bulgarian pipeline infrastructure rather than build a new pipeline. If agreement can be reached on this document, the Bulgarian Minister of Economy and Energy would travel to Moscow to sign the statement November 8-9. After the document is signed, Russia wants the two sides to conduct break-neck negotiations on an Intergovernmental Agreement on South Stream, which Moscow wants to present as a deliverable during President Putin's planned visit to Sofia in January ¶2008. The Bulgarian Government is over its head in the negotiations and needs expert advice, according our MOEE contact. End Summary.

¶2. (C) MOEE Deputy Minister Galina Tosheva told polecoff October 17 that Russia is pressuring Sofia to sign a joint statement on the proposed gas pipeline project South Stream by early November. According to Tosheva, the Russian draft (which Tosheva provided), allows South Stream to use existing pipeline infrastructure in Bulgaria, rather than build a new pipeline on Bulgarian territory. Tosheva fears Russia's plan is to use South Stream to bypass the Ukrainian pipeline system entirely rather than to offer an additional route for Russian gas exports. The MOEE is against this proposal because it would not provide a new source of revenue from tariffs and may require Bulgaria to ultimately give up some control over its existing pipeline system. On October 16 Bulgaria sent back edits to the draft joint statement (which Tosheva also provided), which include specific text that South Stream involves a "new, additional" pipeline on Bulgarian territory. If agreement is reached on this text, Tosheva said Bulgarian Minister of Economy and Energy Petar Dimitrov will travel to Moscow November 8-9 for a signing ceremony.

¶3. (C) Once the joint statement is signed, Russia wants to conduct negotiations on an Intergovernmental Agreement (IGA) on South Stream at break-neck speed. Tosheva said Russia wants to present the IGA as a deliverable during Putin's planned visit to Sofia in January 2008. Tosheva expressed concern about Bulgaria's ability to conduct these negotiations. No one on the Bulgarian South Stream Working Group, which Tosheva heads, is a pipeline attorney or has experience negotiating this type of agreement. Divisions within the six-member Bulgarian working group further complicate matters. Tosheva said PM advisor Valentin

Radomirski appears to be overtly pro-Russian and is pressuring the working group to rush into an agreement with the Russians. She noted that the Bulgargaz representative on the working group usually follows Radomirski's lead.

(Comment: In our direct contacts, Radomirski takes a more skeptical view on the geostrategic and business case for South Stream, citing Bulgaria's already heavy dependence on Russian energy. But, we also understand the politics of dealing with Russia and preparing for Putin's visit. And, because PM Stanishev appointed him to the Board of Directors of Bulgargaz, anything Radomirski says will carry even greater weight as the group looks for a political signal. End Comment.)

14. (C) Tosheva said the Russians had proposed an IGA modeled after the Russian-Bulgarian-Greek agreement on the oil pipeline Burgas-Alexandropolous (BAP), which she views as a flawed document, heavily biased in Russia's favor (reftel).

Sofia's primary concern is ownership. Unlike the BAP project, Tosheva said Bulgaria should insist on majority ownership of the part of the pipeline on Bulgarian territory.

She said EU Energy Commissioner Piebalgs told her that the EU would not support majority Russian ownership of the project, and that the GOB should use the excuse of EU regulations "to stall or cancel the project," if the Russians insist on majority shares.

15. (C) When asked whether Bulgaria had made any effort to include Italy in a multilateral IGA, on the assumption that Bulgaria would be more comfortable negotiating with Russia alongside another EU member, Tosheva said she was highly interested in talking with the GOI. She said given the sensitivities of the situation, she was unsure who within the GOI would be receptive to such a proposal. She asked whether

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we might be able to quietly recommend a trustworthy contact on energy within the GOI. Post will contact Embassy Rome for recommendations.

16. (C) Comment: Tosheva inquired whether the USG could provide an energy adviser, preferably a pipeline attorney, to advise the GOB on setting up the South Stream IGA. Before we investigate this possibility further, we asked her to confirm that Bulgaria's decision-makers would welcome and/or follow the advice of an outside expert. Tosheva's request also begs the question why Bulgaria itself is not investing in legal representation to advise on formation of an IGA, especially given mistakes made during negotiation of the IGA on Burgas-Alexandropolous. Post has repeatedly stressed the need for competent legal counsel when dealing with the Russians on energy projects. Tosheva claims there is no funding for such an adviser, since pro-Russian elements within the government do not see the need for legal counsel. Tosheva said the EU seems to prefer a hands-off approach and has not offered assistance. We will continue to push the Bulgarians to retain their own expert counsel (as they now have for the BAP project) but to ensure we are covering all bases, we request input on whether the USG could offer assistance to the GOB, as well as on possible experts and sources of funding for this purpose. As the Bulgarians rush to possible November meetings/signing, we need to arm them with a clear analysis and points they can use with Moscow to block precipitous action. We believe Tosheva, Dimitrov (for whom we are putting together a program for a possible U.S. visit) and Radomirski will welcome our direct input. End Comment.

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